# Erste Group posts net profit of EUR 1,223.0 million in 1-9 2019, outlook confirmed

## Financial data

| Income statement | | | | | |
|---|---|---|---|---|---|
| **in EUR million** | **Q3 18** | **Q2 19** | **Q3 19** | **1-9 18** | **1-9 19** |
| Net interest income | 1,158.2 | 1,168.8 | 1,187.7 | 3,372.0 | 3,517.4 |
| Net fee and commission income | 471.4 | 492.7 | 503.9 | 1,430.7 | 1,484.3 |
| Net trading result and gains/losses from financial instruments at FVPL | 36.9 | 93.7 | 60.0 | 115.4 | 229.9 |
| Operating income | 1,722.1 | 1,821.2 | 1,801.2 | 5,096.2 | 5,394.1 |
| Operating expenses | -1,025.8 | -1,030.4 | -1,014.9 | -3,102.3 | -3,160.8 |
| Operating result | 696.3 | 790.9 | 786.4 | 1,993.9 | 2,233.3 |
| Impairment result from financial instruments | 28.9 | 7.1 | 0.1 | 102.2 | 42.9 |
| Post-provision operating result | 725.2 | 797.9 | 786.5 | 2,096.1 | 2,276.2 |
| **Net result attributable to owners of the parent** | **454.0** | **354.9** | **491.1** | **1,228.3** | **1,223.0** |
| | | | | | |
| Net interest margin (on average interest-bearing assets) | 2.27% | 2.18% | 2.14% | 2.29% | 2.17% |
| Cost/income ratio | 59.6% | 56.6% | 56.3% | 60.9% | 58.6% |
| Provisioning ratio (on average gross customer loans) | -0.02% | 0.03% | 0.05% | -0.08% | 0.03% |
| Tax rate | 17.3% | 19.9% | 18.5% | 19.0% | 18.5% |
| Return on equity | 14.4% | 9.3% | 14.3% | 12.5% | 11.6% |

| Balance sheet | | | | | |
|---|---|---|---|---|---|
| **in EUR million** | **Sep 18** | **Jun 19** | **Sep 19** | **Dec 18** | **Sep 19** |
| Cash and cash balances | 15,237 | 16,843 | 15,638 | 17,549 | 15,638 |
| Trading, financial assets | 44,333 | 45,620 | 45,895 | 43,930 | 45,895 |
| Loans and advances to banks | 19,972 | 23,035 | 25,241 | 19,103 | 25,241 |
| Loans and advances to customers | 148,311 | 155,331 | 157,841 | 149,321 | 157,841 |
| Intangible assets | 1,483 | 1,490 | 1,491 | 1,507 | 1,491 |
| Miscellaneous assets | 5,491 | 5,943 | 5,996 | 5,382 | 5,996 |
| **Total assets** | **234,827** | **248,261** | **252,101** | **236,792** | **252,101** |
| | | | | | |
| Financial liabilities held for trading | 2,865 | 2,518 | 2,751 | 2,508 | 2,751 |
| Deposits from banks | 19,086 | 19,043 | 19,936 | 17,658 | 19,936 |
| Deposits from customers | 159,828 | 169,668 | 172,511 | 162,638 | 172,511 |
| Debt securities issued | 28,249 | 30,773 | 30,103 | 29,738 | 30,103 |
| Miscellaneous liabilities | 6,403 | 6,609 | 6,670 | 5,381 | 6,670 |
| Total equity | 18,396 | 19,649 | 20,130 | 18,869 | 20,130 |
| **Total liabilities and equity** | **234,827** | **248,261** | **252,101** | **236,792** | **252,101** |
| | | | | | |
| Loan/deposit ratio | 92.8% | 91.5% | 91.5% | 91.8% | 91.5% |
| NPL ratio | 3.5% | 2.8% | 2.7% | 3.2% | 2.7% |
| NPL coverage ratio (based on AC loans, ex collateral) | 71.1% | 75.4% | 76.9% | 73.4% | 76.9% |
| Texas ratio | 27.1% | 22.3% | 21.0% | 24.5% | 21.0% |
| CET1 ratio (phased-in) | 12.5% | 13.6% | 13.2% | 13.5% | 13.2% |

## HIGHLIGHTS

P&L 1-9 2019 compared with 1-9 2018; balance sheet as of 30 September 2019 compared with 31 December 2018

**Net interest income** increased – mainly in the Czech Republic, but also in Romania and Hungary – to EUR 3,517.4 million (+4.3%; EUR 3,372.0 million). **Net fee and commission income** rose to EUR 1,484.3 million (+3.7%; EUR 1,430.7 million) on the back of payment services, from lending and asset management. While **net trading result** improved significantly to EUR 419.3 million (EUR -50.4 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -189.4 million (EUR 165.8 million), the development of both line items was driven by valuation effects. **Operating income** increased to EUR 5,394.1 million (+5.8%; EUR 5,096.2 million). The increase in **general administrative expenses** to EUR 3,160.8 million (+1.9%; EUR 3,102.3 million) was mainly attributable to a rise in personnel expenses to EUR 1,887.2 million (+3.1%; EUR 1,830.5 million). Other administrative expenses included almost all payments to deposit insurance systems expected in 2019 in the amount of EUR 97.7 million (EUR 84.2 million). The increase in amortisation and depreciation to EUR 394.4 million (EUR 350.3 million) is attributable to the first-time application of the new financial reporting standard for leases (IFRS 16) as of 1 January 2019, while a corresponding positive effect was recorded in other administrative expenses. Overall, the **operating result** rose to EUR 2,233.3 million (+12.0%; EUR 1,993.9 million) and the **cost/income ratio** improved to 58.6% (60.9%).

Due to net releases on the back of continued solid asset quality, the **impairment result from financial instruments** amounted to EUR 42.9 million or, adjusted for net allocation of provisions for commitments and guarantees given, 3 basis points of average gross customer loans (EUR 102.2 million or -8 basis points). This was mainly attributable to substantial income received from the recovery of loans already written off, primarily in the Czech Republic, Hungary and Romania, as well as from releases of provisions for commitments and guarantees given in Austria, the Czech Republic and Romania. The **NPL ratio** based on gross customer loans improved further to 2.7% (3.2%). The **NPL coverage ratio** increased to 76.9% (73.4%).

**Other operating result** amounted to EUR -397.2 million (EUR -237.0 million). The deterioration is attributable to a provision in the amount of EUR 150.8 million set aside for losses expected from a decision of the Romanian High Court in relation to the business activities of a local subsidiary. The expenses for the annual contributions to resolution funds included in this line item rose – in particular in the Czech Republic – to EUR 75.3 million (EUR 70.4 million). Banking and transaction taxes were slightly higher at EUR 90.9 million (EUR 88.1 million), including EUR 12.6 million (EUR 13.8 million) in Hungarian banking taxes posted upfront for the full financial year. Other taxes amounted to EUR 8.3 million (EUR 6.4 million).

The minority charge rose due to significantly better results from the savings banks to EUR 322.7 million (EUR 285.8 million). The **net result attributable to owners of the parent** amounted to EUR 1,223.0 million (-0.4%; EUR 1.228.3 million).

**Total equity** not including AT1 instruments rose to EUR 18.6 billion (EUR 17.9 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) amounted to EUR 15.9 billion (EUR 15.5 billion), total **own funds** (final) to EUR 21.5 billion (EUR 20.9 billion). While half-year interim profit is included in the above figures, third-quarter profit is not included. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – rose to EUR 121.4 billion (EUR 115.4 billion). The **common equity tier 1 ratio** (CET1, final) stood at 13.1% (13.5%), the **total capital ratio** at 17.7% (18.1%).

**Total assets** rose to EUR 252.1 billion (EUR 236.8 billion). On the asset side, cash and cash balances decreased to EUR 15.6 billion (EUR 17.5 billion), while loans and advances to credit institutions increased to EUR 25.2 billion (EUR 19.1 billion). **Loans and advances to customers** rose to EUR 157.8 billion (+5.7%; EUR 149.3 billion). On the liability side, deposits from banks increased to EUR 19.9 billion (EUR 17.7 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 172.5 billion (+6.1%; EUR 162.6 billion). The **loan-to-deposit ratio** stood at 91.5% (91.8%).

## OUTLOOK

**Operating environment anticipated to be conducive to credit expansion.**
Real GDP growth is forecast to come in at around 3-4% in Erste Group's CEE core markets and about 2% in Austria in 2019, again driven primarily by robust domestic demand. In CEE, economic activity should be supported by real wage growth and low unemployment. Fiscal discipline is expected to be maintained across CEE.

**Business outlook.** Erste Group aims to achieve a return on tangible equity (ROTE) of more than 11% in 2019 (based on average tangible equity in 2019). The underlying assumptions are: revenues rising faster than costs (based on mid-single digit net loan growth), risk costs higher, but still at a historically benign level (up to 10 basis points), with a tax rate of below 20%.

**Risks to guidance.** Impact from other than expected interest rate development; political or regulatory measures against banks; as well as geopolitical and global economic risks.


For more information, please contact:

**Erste Group, Investor Relations,** Am Belvedere 1, 1100 Vienna, Austria

Email: investor.relations@erstegroup.com
Internet: http://www.erstegroup.com/investorrelations http://twitter.com/ErsteGroupIR http://slideshare.net/Erste_Group

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|---|---|---|
| Thomas Sommerauer | Tel +43 5 0100 17326, | Email: thomas.sommerauer@erstegroup.com |
| Peter Makray | Tel +43 5 0100 16878, | Email: peter.makray@erstegroup.com |
| Simone Pilz | Tel +43 5 0100 13036, | Email: simone.pilz@erstegroup.com |
| Gerald Krames | Tel +43 5 0100 12751, | Email: gerald.krames@erstegroup.com |


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